“MEETING MANAGEMENT CHALLENGES”
THE ECONOMIC DEVELOPMENT ADMINISTRATION’S
MANAGEMENT OF THE AGENCY’S REVOLVING LOAN FUND PROGRAM

FREQUENTLY ASKED QUESTIONS

Q. What is the Revolving Loan Fund (RLF) program?

A. Established by EDA in 1979, under the Economic Development Administration’s (EDA) Revolving Loan Fund (RLF) Program, the agency makes grants to state, local governments and nonprofit organizations to establish lending programs that make capital available to small businesses in distressed regions at below-market rates or when funds are otherwise unavailable from private lenders. RLF grants exist in perpetuity unless terminated for cause or convenience.

Q. What have been the benefits of the program?

A. Since 1996, the RLF program has helped create or retain over 25,000 jobs. Sixty four percent of EDA’s RLF investments from 1996 to present have been in rural areas, and in that same time period, EDA’s $89 million investment in RLFs has leveraged $727 million in private investment. Unfortunately, EDA does not have outcome data for the period prior to 1996.

Q. How large a portfolio does the RLF fund currently represent?

A. Over $700 million.

Q. What did the recent Office of the Inspector General audit report say about the RLF program?

A. The OIG report states that aggressive EDA leadership and oversight is needed to correct persistent problems in the program. The report recommends a number of actions that EDA management should take to improve its oversight of the RLF program, both in headquarters and in the regional offices.

The report raises concerns regarding insufficient monitoring of existing RLF accounts; poor capital utilization; inconsistent financial report collection and evaluation; and a lack of uniform policies and procedures across all regional offices.

Q. Have any state or federal laws been broken concerning the RLF program?

A. No. The OIG report focuses on the lack of management oversight by both regional offices and headquarters.

Q. What has EDA done to correct the management deficiencies and what are they planning to do in the future?

A. EDA has proactively implemented the 2004 Reauthorization Act, including new authorities to streamline RLF administration; simplified all RLF program reporting forms; issued internal program and procedural guidance for consolidating and recapitalizing RLF grants; developed recommendations for new RLF operational policy and procedural guidance (to be issued in Spring 2007); and has developed an interim tracking system for use while EDA develops a fully automated system.

The agency will modify staff performance plans; develop and conduct intensive training for all staff that manage the RLF portfolio; and explore whether additional statutory authority is needed to address the program issues.

Q. The report focuses on the sequestration of funds – what does that mean, and why did the report focus on it?

A. When a recipient has capital that is not loaned or committed in an amount in excess of 25% of the capital base (current value of the portfolio available for lending), EDA may require the excess funds to be deposited into an interest bearing account separate from the recipient's accounts, and the interest earned on that account attributable to the EDA investment must be remitted to the US Treasury. This is called "sequestering" the funds.

The report focused on sequestration because of the interest lost to the US Treasury. However, there is no hard requirement to sequester funds – EDA may require the recipient to sequester. Both amounts sequestered and not sequestered remain part of the capital base and are available for making additional loans.